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PETROLEUM MARKETING COMMISSION

403/262-8808

Telex: 03-821978

May 31, 1982.

1900, 250 - 6th Avenue S.W.

Calgary, Alberta, Canada

T2P 3H7

INFORMATION BULLETIN RE ALBERTA COST OF SERVICE

The Alberta Cost of Service Information Bulletin for the month of April, 1982 is attached.

The Information Bulletin consists of:

1. Copies of any special Orders or Determinations issued by the Commission during the month with respect to Alberta Cost of Service, and notice of any Statements of Objection which have been received during the month; and
2. Alberta Cost of Service Determinations for the month.

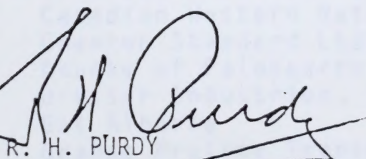
In the case of gas intended to be removed from Alberta, the cost of service determined under Section 11(1), 15(3)(a) and 15(5)(b)(i) of the Natural Gas Pricing Agreement Act for each month is based on estimated figures for that month, adjusted to allow for differences between the estimated and actual figures for the previous month.

In the case of gas intended for consumption within Alberta, the amount estimated as cost of service under Sections 11(2)(a)(ii) and 15(3)(b)(i) of the Act were made under the Commission's general directive for the Alberta cost of service.

All determinations are on gross or higher heating value on a dry basis at 15°C and an absolute pressure of 101.325 kPa (kilopascal).

Yours very truly,

ALBERTA PETROLEUM MARKETING COMMISSION



R. H. PURDY  
Vice-Chairman

Attachment



INFORMATION BULLETIN  
ALBERTA COST OF SERVICE DETERMINATION  
PURSUANT TO THE NATURAL GAS PRICING AGREEMENT ACT  
MONTH OF APRIL, 1982

<u>Section 15(3)(a)</u>	Average Rate Per Gigajoule (GJ) * Cents
Alberta and Southern Gas Co. Ltd.	
- signatory	30.483
- non-signatory	44.147
Canadian Montana Gas Company Limited	
- Produced Gas	121.813
- Purchased Gas	-
Consolidated Natural Gas Limited	24.498
Many Islands Pipe Line (Canada) Limited	
- Purchased Gas	15.214
- North Sibbald (Agent)	3.473
- Saddle Lake	28.048
- Esther	10.342
Pan-Alberta Gas Ltd.	36.973
Progas Limited	20.837
Sulpetro Limited	15.584
TransCanada Pipelines Limited	35.936
Westcoast Transmission Company	
- Husky Oil Ltd.	20.289
- Petrogas Processing Ltd. et al	19.916
Westcoast Transmission Company (Alberta) Limited	
- North	30.124
- Triassic E	.474

Section 15(3)(b)

Albersun Pipelines Ltd.	21.500
Canadian Western Natural Gas Co. Ltd.	21.500
Chevron Standard Ltd.	21.500
County of Paintearth	21.500
Dresser Industries, Inc.	21.500
Gas Alberta	21.500
Grande Prairie Transmission Co. Ltd.	21.500
Husky Oil Operations	21.500
Esso Resources Canada Limited	21.500
Inland Gas & Oil Ltd.	21.500
Interprovincial Gas Co. (1964) Ltd.	21.500
Norcen Energy Resources Ltd.	21.500





Northwestern Utilities Ltd.	21.500
PanCanadian Petroleum Limited	21.500
ICG Utilities (Plains Western) Ltd.	21.500
Suncor Inc.	21.500
Superior Natural Gas Services Ltd.	21.500
Syncrude Canada Ltd.	21.500
Tirol Dehydraters Ltd.	21.500
Tirol Gas Co-op	21.500
Valley Gas Co-op	21.500
Westburne Petroleum & Minerals Ltd.	21.500

#### Notes

\* Calculated on a gross and dry heating value basis at 101.325 kpa (kilopascal) and 15°C.

#### Notice

The price adjustment for gas is \$0.920 00/GJ  
The Alberta Border Price is \$1.934 63/GJ

Pan-Alberta further requests:

"...Confer with the Commission that bearing negotiations from Pan-Alberta to the contrary, Pan-Alberta will be permitted to receive interest on its bank loans, for rate base purposes, for the term of such loans."

The Bank's financing offer dated December 9, 1981 provides for:

#### 1. with respect to financing of investments:

- (a) advances at Bank prime and
- (b) a standing fee of 1/32 per annum for First Bank
- acceptances; and
- (c) a standing fee of 1/32 of 1% per annum on unused credit commencing October 1, 1982, and

#### 2. with respect to financing of deferred development costs:

- (a) loans at Bank prime until January 15, 1985, and
- (b) after January 15, 1985 to January 15, 1991 at Bank
- prime plus 1/32, and
- (c) a standing fee of 1/32 of 1% per annum on the unused credit commencing October 1, 1982, payable monthly.

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DETERMINATION 82-05 (PAG)  
Alberta Cost of Service  
Natural Gas Pricing Agreement Act

APPLICATION

By letter dated April 22, 1982 Pan-Alberta Gas Ltd. (Pan-Alberta) requests that Determination 82-04 (PAG) be amended as requested below:

"It is our understanding that item 3 of the Decision section of the above Determination was intended, in general, to provide for the use of Pan-Alberta's actual debt interest cost in calculating the allowed rate of return. We request confirmation from the Commission that notwithstanding the specific reference to the bank prime rate, Pan-Alberta will be permitted to use the bank prime rate plus 1/4% for the two year period referred to in the Bank of Montreal's offer of credit."

Pan-Alberta further requests:

"...Concurrence from the Commission that barring applications from Pan-Alberta to the contrary, Pan-Alberta will be permitted to recover interest costs on its bank loans, for rate base assets, for the term of such loans."

The Bank's financing offer dated December 9, 1981 provides for:

1. with respect to financing of linepack:

- (a) advances at Bank prime and,
- (b) a stamping fee of 1/2% per annum for First Bank Acceptances; and
- (c) a standby fee of 1/8 of 1% per annum on unused credit commencing October 1, 1982, and

2. with respect to financing of deferred development costs:

- (a) loans at Bank prime until January 15, 1985, and
- (b) after January 15, 1985 to January 15, 1987 at Bank prime plus 1/4%, and
- (c) a standby fee of 1/8 of 1% per annum on the unused portion commencing October 1, 1982, payable monthly.





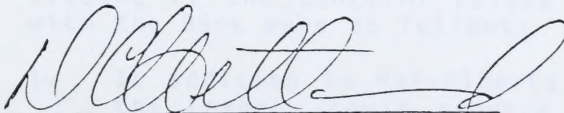


DECISION

Paragraph No. 3 of Determination 82-04 (PAG) is deleted and the following substituted therefor:

- "3. (a) The monthly allowed rate of return on rate base shall be the composite rate resulting from calculation of the debt component based on costs of financing outlined in the Bank's financing offer and a rate of 17% for the common equity component.
- (b) Recovery of the debt financing charges through return is allowed over the term of financing."

DATED THIS 3rd day of May, 1982 at Calgary, Alberta.



D. C. Hetland  
Secretary and Solicitor



DETERMINATION 82-06 (PAG)  
 Alberta Cost of Service  
Natural Gas Pricing Agreement Act

APPLICATION

By application dated April 8, 1982 Pan-Alberta Gas Ltd. (Pan-Alberta) requests the Commission to amend Determination 82-01 (PAG) to accommodate the terms and conditions associated with the line of credit negotiated by Pan-Alberta with the Bank of Montreal ("the Bank") to secure funding for take or pay payments.

Pan-Alberta states in part:

"For the past three years, Pan-Alberta has had considerable success in its take or pay negotiations. The Company's waiver proposal has been well received and accordingly take or pay advance payments to Producers have been minimal. To this point in time the Company's take or pay financing requirements had always been within reasonable limits of its debt capacity.

Government fiscal policies and continuation of soft natural gas markets have severely impaired cash flow to the Producing industry. Take or pay payments provide a means of supplementary cash flow to Producers and we have received strong indications our advance payment proposal will be the favoured alternative in our 1980-81 contract year negotiations. Since some of these same Producers have yet to settle previous contract years' obligations, we expect our financing requirements to extend to prior contract year obligations. As indicated in ..., we have estimated our potential financing requirement to be in the order of \$22.8 MM.

...Some of the concerns raised during our discussions with the Bank were as follows:

1. In addition to Pan-Alberta's present requirement, the Company could require a further \$24 MM next year, which in aggregate represents a large undertaking for Pan-Alberta.





2.

2. The necessity of making widespread take or pay advance payments increases the likelihood of making payments to a greater number of small Producers, which in turn increased the risk that some payments may not be repaid to Pan-Alberta due to Producer insolvency or other extenuating circumstances. Typically, it is difficult to obtain financial information on which to assess the credit worthiness of small Producers. Even if such Producers have a sound financial position currently many things can occur during the five year term over which the take or pay advance is being repaid.
3. Pan-Alberta has limited financial resources and its earning capabilities will not support a financing of this magnitude. (The Commission has consistently viewed take or pay as a separate item and excluded it from rate base for return purposes).

By attaching conditions 3 and 7 ... to its offer of credit, the Bank is looking to the cost of service mechanism for the necessary assurances which Pan-Alberta can not provide."

Pan-Alberta requests amendment of Determination 82-01 (PAG) as follows to satisfy conditions 3 and 7 of the Bank's offer of credit:

"Condition 3 requires that Pan-Alberta be permitted to recover, through its Alberta cost of service, the prevailing interest costs of its take or pay financing during the term of its loan. The term of Pan-Alberta's bank loans will coincide with its take or pay advance payment agreements with its Producers (a maximum of five years). Pan-Alberta therefore requests Determination 82-01 (PAG) be amended to provide for the recovery of incurred take or pay carrying costs for a period of five years.

Condition 7 stipulates that Pan-Alberta be permitted to include in its Alberta cost of service any Producer repayments due under Pan-Alberta's take or pay advance payment arrangement and not received. This approval must be in place for the five year term that such payments will be outstanding...





3.

To satisfy condition 7, Pan-Alberta requests authority to create a reserve for take or pay payments that might not be repaid. The reserve would be established over a series of months through the Company's Alberta cost of service. Proceeds from the creation of the reserve would be used to prepay the Company's bank loans thereby reducing monthly carrying costs. This reserve would be reviewed annually and would be increased in the ensuing year if found to be inadequate, otherwise it would not be adjusted. After the bank loans are retired, succeeding Producer repayments will refund the reserve through monthly Alberta cost of service. Pan-Alberta would propose to create an initial reserve of \$500,000 by including 0.5 ¢/GJ purchases in its Alberta cost of service.

In the alternative, Pan-Alberta requests the Commission to confirm the general principal of being able to include unrecoverable Producer repayments in its Alberta cost of service, with the understanding that future applications for such recoveries will be dealt with expeditiously such that the Company will not default in its principal repayments to the Bank."

Further, in it's letter of April 21, 1982 Pan-Alberta states:

"Pan-Alberta's take or pay payments have been characterized as "loans" or "advances" because the method of recovery is similar to that of a loan, subject to earlier repayment based on recovery of the deficiency volumes. These payments are not purely loans, but rather a means of satisfying take or pay obligations under our gas purchase contracts. These payments, like any other take or pay payment, are supported by the right to recover deficiency volumes and associated payments over the remaining term of the gas purchase contract. Pan-Alberta's take or pay payments are further protected in that they must be repaid in the absence of deficiency volume recoveries or lack of further deliveries under the contract for any reason.

Pan-Alberta has not requested any security over and above that which is provided for in our gas purchase contracts."



4.

DECISION

The decision outlined in determination 82-01 (PAG) is amended by adding the following paragraphs:

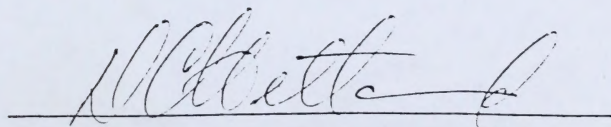
- "4. Subject to paragraph No. 3, recovery of take or pay carrying costs referred to in paragraph No. 2 is allowed during the term of the financing.
5. If, upon application, Pan-Alberta demonstrates to the Commission's satisfaction that it has exercised prudent contract management, and that it cannot by continued prudent contract management obtain recovery of a take or pay payment, the Commission will allow the amount of the unrecoverable payment in Alberta cost of service."

REASONS

The Commission has in the past allowed recovery of carrying costs of take or pay payments on the basis that they are costs attributable to the acquisition of gas which are not recoverable by an original buyer under the provisions of gas sales contracts. When it is determined that a take or pay payment cannot be recovered, even after the exercise of prudent contract management, the resulting cost to the original buyer should then be considered a cost attributable to the acquisition of gas.

In determining prudent contract management, the Commission would consider the prudence of the management of all gas sales contracts of the original buyer and would, among other things, assess the prudence of contracting for additional supplies while take or pay payments are outstanding.

DATED THIS 6th day of May, 1982 at Calgary, Alberta.



D. C. Hetland  
Secretary and Solicitor



